



## NEWS RELEASE

### GEAR ENERGY LTD. ANNOUNCES SECOND QUARTER 2019 OPERATING RESULTS, INTENTION TO INSTITUTE A NORMAL COURSE ISSUER BID AND BOARD OF DIRECTORS CHANGES

CALGARY, ALBERTA (August 7, 2019) Gear Energy Ltd. (“Gear” or the “Company”) (TSX:GXE) is pleased to provide the following second quarter operating update to shareholders. Gear’s Interim Consolidated Financial Statements and related Management’s Discussion and Analysis (“MD&A”) for the period ended June 30, 2019 are available for review on Gear’s website at [www.gearenergy.com](http://www.gearenergy.com) and on [www.sedar.com](http://www.sedar.com).

#### Financial Summary

(Cdn\$ thousands, per boe amounts)	Three months ended			Six months ended	
	Jun 30, 2019	Jun 30, 2018	Mar 31, 2019	Jun 30, 2019	Jun 30, 2018
<b>FINANCIAL</b>					
Funds from operations <sup>(1)</sup>	<b>17,104</b>	13,674	15,032	<b>32,136</b>	21,753
Per boe	<b>26.25</b>	21.40	24.29	<b>25.29</b>	17.74
Per weighted average basic share	<b>0.08</b>	0.07	0.07	<b>0.15</b>	0.11
Cash flows from operating activities	<b>18,881</b>	8,596	5,981	<b>24,862</b>	23,383
Net income (loss)	<b>5,684</b>	(1,869)	(6,812)	<b>(1,128)</b>	(6,163)
Per weighted average basic share	<b>0.03</b>	(0.01)	(0.03)	<b>(0.01)</b>	(0.03)
Capital expenditures	<b>3,334</b>	6,385	9,252	<b>12,586</b>	15,628
Decommissioning liabilities settled	<b>474</b>	373	399	<b>873</b>	1,262
Net (dispositions) acquisitions <sup>(2)</sup>	<b>(162)</b>	10	(1,038)	<b>(1,200)</b>	400
Net debt <sup>(1) (3)</sup>	<b>72,127</b>	38,960	85,740	<b>72,127</b>	38,960
Weighted average shares, basic (thousands)	<b>219,093</b>	195,045	219,016	<b>219,089</b>	195,007
Shares outstanding, end of period (thousands)	<b>219,093</b>	195,213	219,044	<b>219,093</b>	195,213
<b>OPERATING</b>					
Production					
Heavy oil (bbl/d)	<b>4,104</b>	4,774	4,148	<b>4,126</b>	4,504
Light and medium oil (bbl/d)	<b>2,166</b>	1,232	1,863	<b>2,015</b>	1,215
Natural gas liquids (bbl/d)	<b>228</b>	219	235	<b>232</b>	221
Natural gas (mcf/d)	<b>3,977</b>	4,806	3,787	<b>3,882</b>	5,016
Total (boe/d)	<b>7,161</b>	7,025	6,877	<b>7,020</b>	6,775
Average prices					
Heavy oil (\$/bbl)	<b>60.45</b>	55.04	52.89	<b>56.67</b>	49.40
Light and medium oil (\$/bbl)	<b>71.60</b>	75.67	63.64	<b>67.94</b>	70.21
Natural gas liquids (\$/bbl)	<b>13.11</b>	40.51	26.40	<b>19.82</b>	40.12
Natural gas (\$/mcf)	<b>0.92</b>	1.08	2.40	<b>1.64</b>	1.38
Selected financial results (\$/boe)					
Commodity and other sales	<b>57.23</b>	52.67	51.44	<b>54.41</b>	47.76
Royalties	<b>(6.87)</b>	(5.06)	(4.33)	<b>(5.63)</b>	(5.01)
Operating costs	<b>(18.08)</b>	(17.16)	(18.73)	<b>(18.39)</b>	(16.52)
Operating netback <sup>(1)</sup>	<b>32.28</b>	30.45	28.38	<b>30.39</b>	26.23
Realized risk management losses	<b>(1.65)</b>	(5.55)	(0.16)	<b>(0.93)</b>	(4.88)
General and administrative	<b>(2.47)</b>	(2.55)	(2.04)	<b>(2.26)</b>	(2.69)
Interest	<b>(1.90)</b>	(0.93)	(1.88)	<b>(1.89)</b>	(0.92)
Transaction costs and other	<b>(0.01)</b>	(0.02)	(0.01)	<b>(0.02)</b>	-
<b>TRADING STATISTICS</b>					
(\$ based on intra-day trading)					
High	<b>0.88</b>	1.37	0.73	<b>0.88</b>	1.37
Low	<b>0.53</b>	0.68	0.54	<b>0.53</b>	0.66
Close	<b>0.57</b>	1.35	0.61	<b>0.57</b>	1.35
Average daily volume (thousands)	<b>412</b>	820	283	<b>348</b>	642

(1) Funds from operations, net debt, and operating netback are non-GAAP measures and additional information with respect to these measures can be found under the heading “Non-GAAP Measures” in Gear’s MD&A.

(2) Net (dispositions) acquisitions exclude non-cash items for decommissioning liability and deferred taxes and is net of post-closing adjustments.

(3) Net debt includes the risk management liability acquired through the Steppe Resources Inc. corporate acquisition. June 30, 2019 – \$1.6 million, June 30, 2018 – nil, December 31, 2018 – \$4.5 million.

## MESSAGE TO SHAREHOLDERS

Execution of Gear's value focused strategy continues to progress as expected. Total net debt was reduced by 22 per cent since the beginning of the year and record quarterly production was delivered during the second quarter of 2019 with an increased weighting to higher netback light oil. Now that Gear has essentially achieved its target for debt reduction, the summer drilling program has been initiated with the intention of balancing capital spending against estimated funds from operations throughout the remainder of the year.

As a result of the strong performance to date in 2019 and current perceived value misalignment, Gear believes it is now appropriate to pursue the implementation of a normal course issuer bid ("NCIB") through the facilities of the Toronto Stock Exchange. Pursuant to the NCIB and subject to regulatory approval, Gear would be able to purchase for cancellation up to 5% of its issued and outstanding common shares for a one year period at prevailing market prices at the time of purchase. In order to affect the NCIB Gear must reduce its stated capital pursuant to the provisions of the *Business Corporations Act* (Alberta). As such the Board of Directors of Gear has determined to hold a special meeting of shareholders on September 20, 2019 for shareholders to consider and, if determined advisable, approve a reduction in the stated capital of Gear's common shares. The record date for the special meeting will be August 19, 2019. Assuming shareholder approval for the reduction of stated capital is received and subject to approval of the NCIB by the Toronto Stock Exchange, Gear intends to commence the NCIB as soon as practicable following the special meeting.

## QUARTERLY HIGHLIGHTS

- Reduced net debt by \$19.8 million, or 22 per cent, from the beginning of 2019 to the end of the second quarter of 2019. Net debt was \$72.1 million as at June 30, 2019 including \$66.3 million of bank debt, \$13.3 million of convertible debentures, and \$7.5 million of positive working capital. Net debt to quarterly annualized funds from operations for the second quarter was 1.1 times. As announced on May 24, 2019, Gear's syndicated credit facilities were reduced to \$90.0 million dollars as a result of a variety of factors including the recent Supreme Court ruling on Redwater.
- Record high sales production for the second quarter averaging 7,161 boe per day, 91 per cent weighted to liquids. This was a four per cent increase compared to the prior quarter. The increase in quarterly production was assisted by 460 bbl per day from two wells drilled in Tableland in the first quarter, 200 boe per day from the 2018 Cardium Ferrier well, optimization of wells drilled in 2018, and sales from inventory as a result of stronger pricing and an easing of egress constraints.
- Quarterly funds from operations of \$17.1 million, a 14 per cent increase from the first quarter funds from operations of \$15.0 million. The quarterly increase is primarily due to the increase in sales volumes and stronger light and heavy oil pricing.
- Lowered operating costs from \$18.73 per boe in the first quarter of 2019 to \$18.08 per boe in the second quarter of 2019 as a result of higher volumes and lower workover activity. This was accomplished despite a rainy spring yielding temporary road bans and wet lease conditions.
- Increased operating netback from \$28.38 per boe in the first quarter of 2019 to \$32.28 per boe in the second quarter of 2019 as a result of the aforementioned higher commodity prices and the increase in corporate production weighting to higher netback barrels in Tableland. The second quarter operating netback is the highest quarterly netback for Gear since the third quarter of 2014.
- At the end of the second quarter, commenced summer drilling program with Gear's third Tableland well in Southeast Saskatchewan. Subsequent to quarter end, two gross (two net) heavy oil wells in Wildmere and one gross (one net) light oil well in Wilson Creek have also been drilled. For the full year 2019, Gear is forecasting to drill a total of 17 wells including 11 heavy oil wells and 6 light oil wells.
- The two Tableland wells drilled in the first quarter were the first wells drilled by Gear on the assets acquired in September of 2018. As the two best wells that have ever been drilled on the acquired acreage, the results of these two-mile Torquay wells are exceeding expectations. Total combined costs for the two wells came in at just over \$6.9 million and the estimated net operating income to date over the first four and half months of production is just over \$3.7 million, or 53 per cent of the invested capital. The wells averaged approximately 220 bbl per day per well over the same period, produced a combined total of 60,000 barrels of light oil and are currently producing an average of approximately 185 bbl per day per well.

## BOARD OF DIRECTORS CHANGES

Gear is also pleased to announce the appointment of Greg Bay and Wilson Wang to the Board of Directors.

Mr. Bay was previously a director of Gear from 2013 through 2016. Mr. Bay is a Managing Partner of Cypress Capital Management (founding partner) and brings with him over 28 years of experience in the investment industry with emphasis on the oil and gas sector. Mr. Bay holds a director position with the Mullen Group Ltd. Mr. Bay obtained his Chartered Financial Analyst designation in 1988 and holds a Bachelor of Commerce in Finance from Brigham Young University.

Mr. Wang is the Managing Partner and Founder of Twin Peaks Capital LLC and founder of HFI Research. Mr. Wang has his Chartered Financial Analyst designation and holds a Bachelor of Business Administration in Finance from the University of Hawaii.

Gear is also announcing the resignation of Kevin Olson from the Board of Directors. Mr. Olson joined the board in July 2016 upon completion of the plan of arrangement with Striker Exploration Corp. Management and the Board of Directors of Gear would like to thank Mr. Olson for his contributions to Gear over the last three years and wish him success in his future endeavours.

## FOR FURTHER INFORMATION PLEASE CONTACT:

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### Forward-looking Information and Statements

This press release contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this press release contains forward-looking information and statements pertaining to the following: the intention of balancing capital spending against estimated funds from operations throughout the remainder of the year; the pursuit to implement a normal course issuer bid; Gear's intention to call and hold a special meeting of shareholders for the purpose of approving a reduction in the stated capital of its common shares; and the forecast to drill a total of 17 wells including 11 heavy oil wells and 6 light oil wells.

The forward-looking information and statements contained in this report reflect several material factors and expectations and assumptions of Gear including, without limitation: that Gear will continue to conduct its operations in a manner consistent with past operations; the general continuance of current industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; the accuracy of the estimates of Gear's reserves and resource volumes; certain commodity price and other cost assumptions; and the continued availability of adequate debt and equity financing and funds from operations to fund its planned expenditures. Gear believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

To the extent that any forward-looking information contained herein may be considered future oriented financial information or a financial outlook, such information has been included to provide readers with an understanding of management's assumptions used for budgeting and developing future plans and readers are cautioned that the information may not be appropriate for other purposes. The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: changes in commodity prices; changes in the demand for or supply of Gear's products; unanticipated operating results or production declines; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in development plans of Gear or by third party operators of Gear's properties, increased debt levels or debt service requirements; any action taken by Gear's lenders to reduce the borrowing capacity under the Credit Facilities; inaccurate estimation of Gear's oil and gas reserve and resource volumes; limited, unfavorable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; and certain other risks detailed from time to time in Gear's public documents including risk factors set out in Gear's most recent annual information form, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

The forward-looking information and statements contained in this press release speak only as of the date of this press release, and Gear does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.

### NON-GAAP Measures

This press release contains the terms funds from operations, net debt, net debt to quarterly annualized funds from operations and operating netback, which do not have standardized meanings under Canadian generally accepted accounting principles ("GAAP") and therefore may not be comparable with the calculation of similar measures by other companies. Management believes that these key performance indicators and benchmarks are key measures of financial performance for Gear and provide investors with information that is commonly used by other oil and gas companies. Funds from operations is calculated as cash flows from operating activities before changes in non-cash operating working capital and decommissioning liabilities settled. Net debt is calculated as debt less current working capital items, excluding risk management contracts and the current portion of decommissioning liabilities. Net debt to quarterly annualized funds from operations is calculated as net debt divided by the annualized funds from operations for the most recently completed quarter. Operating netbacks are calculated based on the amount of revenues received on a per unit of production basis after royalties and operating costs. Additional information relating to certain of these non-GAAP measures, including the reconciliation between funds from operations and cash flow from operating activities, can be found in the MD&A.

### Barrels of Oil Equivalent

Disclosure provided herein in respect of BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of six Mcf to one Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and do not represent a value equivalency at the wellhead. Additionally, given that the value ratio based on the current price of crude oil, as compared to natural gas, is significantly different from the energy equivalency of 6:1; utilizing a conversion ratio of 6:1 may be misleading as an indication of value.

### Initial and Other Production Rates

Any references in this document to initial production rates are useful in confirming the presence of hydrocarbons, however, such rates are not determinative of the rates at which such wells or other future wells will continue production and decline thereafter. Additionally, such rates may also include recovered "load oil" fluids used in well completion stimulation. In addition, Gear has disclosed the cumulative production of wells on certain Gear properties; there is no certainty that other wells on such properties will achieve such production levels. Readers are cautioned not to place reliance on such rates in calculating the aggregate production for Gear.